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THE CURRENT SITUATION AND PROBABLE DEVELOPMENTS IN EASTERN GERMANY THROUGH 1952

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W A R N I N G

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SECURITY INFORMATION

THE CURRENT SITUATION AND PROBABLE DEVELOPMENTS IN EASTERN GERMANY THROUGH 1952

1. Introduction.

Industrialization, including efficiency of management and of the labor force, has advanced further in East Germany than in any of the other Soviet Satellites. The Soviet Zone of Germany is, however, deficient to a great extent in the raw and semiprocessed materials required for industry. Among these are bituminous and hard coals, coke, high-grade iron ore, iron and steel, manganese, nonferrous metals, and some chemicals, for which commodities East Germany is heavily dependent on the USSR and the rest of the Soviet Bloc, as well as on West Germany. Moreover, although East Germany is almost self-sufficient in foodstuffs, it depends upon the USSR and the Satellite countries for some agricultural products, including meat, fats, cotton, and wool. It has recently regained self-sufficiency in grain production, although some grain is still imported for stockpiling. Some sugar is exported. Meat production is expected to reach prewar levels by 1953.

East Germany's integration into the Soviet Bloc is virtually complete. Deliveries to the Bloc, mainly to the USSR, include synthetic fuels, special equipment and machinery, optical and precision instruments, potash, cement, and porcelain ware. Despite extensive dismantling of factories and equipment, East German industry has considerable strategic importance, and there is considerable evidence that its armament and munition plants manufacture equipment, particularly parts, for shipment to the USSR. Among the major end items especially useful for the Soviet military forces are trucks, optical instruments, explosives, and synthetic fuels.

East Germany's foreign trade is very largely oriented to the Bloc. While the volume of its exports is small as compared with Soviet industrial output, these exports constitute a valuable contribution to the total Soviet Bloc economy, particularly because many of the products represent special skills in the fields of chemicals, optical and precision instruments, and special machinery. Of particular significance is the

East German output of uranium ores and concentrates, which represent about 45 percent of the total uranium available to the USSR for its atomic program.

2. Economic Resources and Production Capabilities.

The iron and steel industry of East Germany produced 875,000 metric tons of steel in 1950, or approximately half of domestic requirements. The industry depends on imports for all necessary raw materials except silicon and the fluxing agents. East Germany is particularly short of the scrap required for the production of raw steel, although plans are under way at present to expand pig iron production to alleviate the shortage of scrap. However, in view of East Germany's great dependence on the Bloc countries for raw materials for this industry and the limited assistance from these sources in the past, these plans may not be implemented.

The output of nonferrous metals in East Germany is insufficient to meet domestic requirements, and the deficits must be met by imports from both the Bloc and outside sources. In this respect, East Germany is a liability to the Bloc. Copper output in 1950 is estimated at 35,000 metric tons, or about two-thirds of domestic needs. Production is expected to increase about 10 percent in 1952. No primary zinc is produced, and lead production is not expected to exceed 20,000 metric tons by 1952. Nearly one-third of the lead required must be imported.

East Germany is the world's largest producer of brown coal, and reserves are extensive. It has, however, experienced great difficulty in expanding production to the levels required by the growing demands of the economy. The deficiency in output and reserves of bituminous coal, and particularly of coking coals, constitutes a fundamental weakness of the economy.

There are no known deposits of crude oil in East Germany. However, the well-developed synthetic liquid fuels industry is the largest in the world. It is dependent to some extent on crude oil imported from Austria. The total output of liquid fuels in 1950 was about 1.1 million metric tons, of which the synthetic plants produced 95 percent. In addition to meeting nearly all domestic requirements for petroleum products, the synthetic fuels industry in 1950 supplied 50,000 metric tons to the Soviet occupation forces and 300,000 metric tons to the rest of the Bloc. Large-scale stockpiling has taken place, and special attention is now given to the manufacture of such products as aviation gasoline, iso-octane, and jet fuel.

The large output of electric power in East Germany, which reached 18.5 billion kilowatt-hours in 1950, contributes significantly to the economic potential of the Soviet Bloc, particularly by supporting the chemical and synthetic fuel industries, which export their products to the USSR. The Sowjetische Aktiengesellschaft (SAG--Soviet-owned) plants control about 30 percent of the generating capacity and consume from 35 to 45 percent of the total production of electric power. Power output, however, is not sufficient to meet all of East Germany's requirements and is a limiting factor in the expansion of the economy. The expansion of electric power output planned for 1952 is not likely to be achieved.

The East German chemical industry produces many strategic items for the Bloc. Important among these is sulphuric acid, a key chemical in the manufacture of such materials as explosives, rayon, and rubber goods and of intermediate products used in their manufacture. The current critical shortage of sulphur has retarded East German production of sulphuric acid. The chemical industry will be able to continue its important contribution to the USSR's war potential only if it can import from the West sufficient quantities of pyrites for the production of sulphuric acid or if Albanian, Bulgarian, and Rumanian pyrites are diverted from other Bloc consumers to East Germany. Other important commodities produced by the East German chemical industry include cellulose, soap, dyestuffs, and heavy chemicals. Output of these items is vulnerable to withholding of caustic soda by the West.

The synthetic rubber industry in East Germany is the only large-scale Satellite producer of this product, which represents an important element in East Germany's contribution to the Soviet economic-military potential. Most of the chemical products essential to the manufacture of synthetic rubber are available domestically, although some carbon black is obtained from Poland and through clandestine trade with the West. Export to the USSR and the rest of the Bloc of more than half of the annual synthetic rubber output (estimated at 40,000 metric tons in 1950 and expected to reach 47,000 metric tons in 1951) has resulted in a domestic shortage of rubber goods, but the industry can be expanded considerably. Domestic production of automotive tires is not sufficient to meet requirements, and about half must be imported. Tire cord and rubber goods, however, are generally exported to the Bloc.

Although the Soviet Union dismantled 72 percent of the East German engineering industry after the war, this industry by 1950 had been rebuilt to the point where it represented 25 percent of the total value of East German industrial production. Of the present production facilities, about 30 percent is Soviet-owned. The value of 1950 production of the engineering industry was about DM 5.2 billion, and under the Five Year Plan (1951-55) it is expected to reach a value of DM 11.28 billion by 1955. The Plan, which provides for supplying equipment for the expansion of the mining, metallurgy, and electric power industries and for the production of equipment formerly imported from the West, appears to be overly ambitious. For example, among the key goals is independence from West Germany, from which it obtained many of its basic requirements before and since World War II. East Germany has produced surpluses of certain types of textile machinery, precision instruments, some machine tools and other light equipment and machinery but has been dependent on West Germany for trucks, bearings, heavy electrical equipment, heavy machine tools, and mining, metallurgical, and construction equipment generally. The USSR receives about 45 percent of the annual value of East German engineering production from reparations deliveries and from the output of Soviet-owned plants, which control 30 percent of the industry's capacity. In addition, ordinary commercial shipments of engineering products also go to the Soviet Union.

Apparently there is little or no manufacture of complete weapons, but components of Soviet weapons are believed to be produced in substantial quantities and sent to the USSR for assembly. Among these components are parts for small arms, tanks, railroad guns, submarines, and aircraft. In addition, ammunition, explosives, and machinery for munitions manufacture are produced.

East Germany's output of uranium ores and concentrates, all of which is exported to the USSR, represents 45 percent of the total uranium available to the Soviet Bloc and constitutes a valuable contribution to the Soviet atomic weapons program.

3. Agriculture and Food Supplies.

East Germany has regained self-sufficiency in grain production, it again exports sugar, and meat production is expected to reach prewar levels by 1953. East Germany also receives considerable quantities of grain and

meat from other Bloc countries. These imports and a low level of domestic consumption have allowed the building of stockpiles. About 1 million metric tons of grain reportedly were stockpiled in 1950 from Soviet Bloc imports, and large additional imports in excess of East German domestic requirements are planned for the next few years. A stockpile of 45,000 tons of canned meat also is reported, and further increases in meat production are planned in addition to imports. The estimated grain production for 1950 is about 5.7 million metric tons, and this is expected to rise to about 5.8 million tons by 1952. Meat production is estimated at 566,000 metric tons in 1950-51 and is scheduled to rise to 637,000 tons in 1951-52.

East Germany produces no cotton, which has been imported in increasing amounts from the USSR, and it produces only about 5 percent of its wool requirements, the balance being obtained from foreign sources. Although the loss of plants and technicians to the USSR temporarily retarded the postwar development of the synthetic fiber industry, its rehabilitation is being accelerated to offset the shortage of natural fibers. Production of synthetic fibers is estimated to increase from about 82,000 metric tons in 1950 to 99,000 metric tons in 1952.

East German soil and climate permit a system of diversified farming for the production of livestock, grain, and industrial crops, particularly sugar beets. Prewar production levels have not yet been attained, but recovery is greatly advanced.

4. Transportation.

The volume of Soviet traffic with East Germany is greater than with any other Satellite. The entire East German transportation system makes an important contribution to the Soviet economic potential for war, principally the railroad system but also, to a lesser extent, the water and highway transport systems. Although the East German airfield network is of great strategic significance, no internal air transport operations are conducted, and international operations are of no economic consequence. East Germany's 51 airfields are, however, controlled by the Soviet Air Force, and a few of them have runways capable of accommodating heavy bombers and jet fighters.

The East German rail system carries a large proportion of the traffic with the USSR, including reparations, military supplies, products of Soviet-owned industry in East Germany, normal commerce, and transit traffic from the West. East German rail traffic destined for the USSR moves both across Poland for transloading to the Soviet broad-gauge network and to East German Baltic ports for transshipment by sea. The total volume of rail traffic destined for the USSR probably is at least 25,000 metric tons a day. In addition, the much greater volume of East German internal rail traffic is essential to the maintenance of industrial production for Soviet account. The USSR also receives railroad equipment out of current East German production.

East German inland and maritime water transport facilities, which are important to the domestic economy, also participate in the movement of traffic to and from the USSR. East Germany has no ocean-going fleet, but its Baltic ports handle a substantial volume of eastbound seaborne traffic which the rail lines across Poland to the Soviet Union probably could not entirely accommodate. The highway network of East Germany makes little direct contribution to the Soviet economic potential. Highway traffic plays a significant part in the internal economy, however, and its volume and relative importance are greater than in any other Satellite country.

5. Population, Employment, Skills, and Morale.

The population of East Germany increased by over 2 million from 1939 to 1946 but did not change appreciably from 1946 to 1951. For 1951 the population of East Germany, including the Soviet Sector of Berlin, is estimated at 18.5 million.

In the early postwar years the repatriation of a large number of people of German stock more than counterbalanced the losses resulting from the war, defections to the Western Zones, and deportations to the USSR. Defections and a high death rate reduced the population between 1948 and 1951. In 1950 alone, defections totaled about a quarter of a million persons.

a. Employment.

Employment in January 1951 was reported to be 7,945,000 persons, excluding the self-employed, independent farmers, and Berlin workers.

The Soviet Sector of Berlin was specifically excluded from the 1949 employment totals and apparently is excluded from the Five Year Plan figures. Employment in the Soviet Sector of Berlin has been fluctuating at about 600,000 and probably will continue at this level. The number of West Berlin residents employed in the Soviet Sector has been greatly reduced.

About 49 percent of the reported labor force employed in January 1951 was in industry; 24 percent in agriculture; 22 percent in commerce, other services, and public employment; and 5 percent in transportation. The Five Year Plan (1951-55) envisages an increase of 990,000 persons in total employment, with the greater share in heavy industry. This gain is to come from the net natural increment to the working age population, increased employment of women, and absorption of the unemployed. One-third of the total increase is to be achieved in 1951, and the planned increase from 1951 to 1953 is nearly 500,000 workers. In 1953 the distribution of the labor force is to be as follows: industry, 51 percent; agriculture, 23 percent; commerce, other services, and public employment, 21 percent; and transportation, 5 percent.

With an estimated 390,000 persons leaving school in 1951, of whom 265,000 were to become apprentices, there would appear to be a sufficient number of workers to meet the 1951 employment goal. Shortages of materials and other limitations on the economy's capacity to absorb the increased employment will make achievement of the goal less certain. In June 1951, unemployment was reported to be increasing as a result of materials shortages.

The plan to increase employment from 7.9 million in 1951 to 8.4 million in 1953 may fall short of fulfillment, particularly if the annual rate of defections to the West continues at the rate of one-quarter of a million a year and if shortages of materials, which prevent full employment, are not alleviated.

b. Level of Technical Training, Skill, and Efficiency.

In 1946 there were nearly 100,000 engineers and technically trained personnel in East Germany. Defections among this group have been offset to some extent by the addition of newly trained personnel, and attempts reportedly have been made to recruit engineers from West Germany.

Lack of technical and skilled personnel is restricting increases in productivity. The shortage of skilled workers is to be met by training persons having lower qualifications than were formerly required. By 1955, 122,000 engineers and technicians and 964,200 apprentices (in trade schools) are to be trained. Productivity was said to have regained prewar levels by the end of 1949 in light industry but not in heavy industry. By the end of 1950, 1939 levels were to be achieved throughout the economy. In 1951, productivity is to rise by 14.7 percent over 1950 and is to be 60 percent above 1950 levels by the end of 1955. Short supplies of materials and shortcomings in training programs, however, may restrict productivity gains.

c. Expansibility and Adaptability of the Labor Force.

The possible additional labor input which could be obtained from the present labor force is limited by shortages of equipment and materials. The removal of these obstacles would permit increased production per worker through overtime and through increases in productivity.

The Five Year Plan (1951-55) is predicated on an increase of about 400,000 persons in the working-age population by 1953. Such an increase would occur if there were no migration. If, however, the flight of refugees to Western Germany continues at the 1950 rate, the population in this age group would decrease. Under these circumstances the expansion of the economy would depend on the manpower resources of a population severely depleted in the working ages and overbalanced with women. Mobilization requirements would even more stringently curtail labor's contribution to the Five Year Plan.

d. Worker Morale.

Living standards in East Germany are estimated to be at about two-thirds of the 1936 level but are expected to rise slightly in 1951. Foodstuffs remain rationed, and the prices of nonrationed goods are exorbitant.

Efforts are being made to alleviate housing shortages. The over-all effect of controls and poor living conditions may be expected to result in further lowering of the morale.

6. Administrative Organization of the East German Economy.

Organization of the East German economy is closely tied to Plan control and administration. Plan control is primarily exercised by the USSR and the East German government. However, it is important to note the economic control functions of the Socialist Unity Party (SED). The virtual identity of State and Party has permitted the SED to place its functionaries at every level of production. For example, the village cooperative, which is the basic agricultural control instrument, is effectively dominated by SED members. The method of introduction of the Five Year Plan illustrates the power of the SED. Details of the Plan were drawn up and completed by the Ministry of Planning on 12 April 1950, and the first official copy was personally taken to Moscow by President Wilhelm Pieck for discussion and approval. It was only after Soviet approval had been obtained that the Plan was publicly presented, not by the government, but by the SED at its national conclave held in Berlin from 20 to 24 July 1950.

a. Industry.

Except on the highest levels of the planning organization, the instruments of Plan preparation are also the instruments of control. In the case of industry, the various Ministries concerned with Plan objectives (Light Industry, Heavy Industry, and Machine Construction) are responsible not only for the drafting of preliminary programs, including potential yields, but also for performance. The State Planning Commission, acting as a coordinating unit, does not have a primary interest in production control.

As part of a marked tendency toward the centralization of control in recent months, the intermediate control functions of the Kreise and the Laender have been taken over by local representatives of national Ministries who have direct channels of communication to the central government. In addition, a decree issued by the government on 22 December 1950 provides for sweeping organizational changes in the government-owned firms (VVB's). This decree provides for the completion of the following program by 1 April 1951: (a) dissolution of all Land-administered associations of government-owned firms (VVB-L's); (b) placement of large, strategic factories under the direct administration of the appropriate technical ministry in Berlin; (c) placement of certain small, closely

coordinated firms under the supervision and administration of larger firms; (d) regrouping of the middle-sized firms into new regional VVB's which will differ considerably from the existing ones; (e) organization into local communal enterprises of certain small firms belonging to the liquidated VVB-L's; and (f) transfer of heavy machines from village cooperatives to nationalized factories.

b. Agriculture.

The control of agriculture, like the control of industry, is exercised by the SED. By arbitrary and discriminatory tax legislation, high and disproportinate crop delivery quotas and the establishment of Machine Lending Stations (MAS) and the Farmers' Mutual Aid Society (Vdg B), the government is preparing the way for gradual acceptance of collectivization. The Machine Lending Stations rent tractors, reapers, threshers, and other agricultural machinery on a daily basis; while the Aid Society is a farm cooperative, allegedly designed to represent the interests of small farmers. Political indoctrination of the peasants is a supplementary function of both organizations. Overlapping directorates and SED informers insure that the basic agricultural policy of gradual steps toward collectivization is implemented down to the village level.

State farms, established on the large estates expropriated at the end of World War II and retained by the state, have been divided between two administrations, the German Seed Growing Society (DSG) and the State Domains.

While it appears that agricultural control in East Germany is generally effective, one serious shortcoming should be noted. A lack of cooperation between the administrations of the Farmers' Mutual Aid Society (Vdg B) and the Machine Lending Stations (MAS) has militated against the fulfillment of production goals and has helped to create shortages of agricultural machinery, spare parts, seeds, fertilizers, and brood livestock. Morale among the peasants, who foresee slight, if any, rewards for their best efforts has been reduced.

c. Economic Services (Transportation, Communications, etc.).

Railroads and communications were nationalized in East Germany before the advent of Soviet control and the East German government.

d. Finance.

Local and state governments have been effectively weakened by a centralized budgetary control system which has stripped them of all financial independence. According to a German source, all treasury transactions of the state budget have been turned over to the Deutsche Notenbank, the central bank of East Germany. The Notenbank is in the process of establishing a central bookkeeping account for each district. All cash on hand, except for a petty cash balance of 50 DM (East), shall be turned over weekly to the Notenbank by the 20 municipal and 119 rural districts of East Germany. Wage payments owed by the districts will then be paid by the Notenbank directly to the wage earners' accounts at the district savings banks. These salary accounts, numbering about 1,200,000, will be maintained in the district banks to relieve the work load of the Notenbank. In this way the Notenbank will be able to administer the treasuries of all communities. Moreover, the municipal banks will not accept a cash transaction in excess of 10 DM (East).

7. Soviet Control over the East German Economy.

The ultimate objective of Soviet control over the East German economy is complete domination of its industrial and military potential. In connection with this objective, the Soviets are attempting to improve the capabilities of East Germany to make substantial contributions to the USSR in wartime as well as possibly to conduct war against bordering states. In the meantime, the Soviets are obtaining increased benefits to their own economy and to their war potential.

The USSR has been increasingly successful in tightening its hold over East Germany. Following the conclusion of hostilities in Europe, the Soviets actively pursued a policy of crude and essentially unplanned exploitation. This included outright requisition of materials and equipment and the imposition of bilateral trade pacts on terms overwhelmingly advantageous to the USSR. Paralleling or following these actions were Soviet measures to gain control over the East German economy through the management of joint companies in key industries, infiltration of Soviet "advisors" into key plants and government ministries, and general direction over the entire economy through Soviet-controlled political leaders. More recently, the Kremlin has turned from its policy of exploitation for immediate gains and has adopted a long-term and more sophisticated policy of exploitation through planned and integrated economic development.

This policy is implemented by efforts toward integration through (a) pacts of economic collaboration, by (b) trilateral trade deals, and, most important, by (c) the coordinating and planning activities of the Soviet-Satellite Council of Mutual Economic Assistance. These measures will greatly increase the flow of materials to the USSR and will guarantee continued development of the East German economy along lines most beneficial to the USSR.

Meanwhile, Soviet domination is sufficiently complete to insure continued economic support for other Soviet objectives. This support takes the form of (a) military manpower; (b) equipment and materials for use in the USSR; (c) technical and scientific personnel; (d) production of military items for both East German and Soviet armies; (e) stockpiles of important commodities; (f) port and rail facilities, warehouses, and airfields; and (g) economic warfare against the West.

Although relatively few scientific and technical personnel have been moved to the USSR, the products of their skill are of major value to the Soviet economy.

Furthermore, Soviet direction of the East German economy toward the basic Soviet goals for that country is evidenced by the high percentage of East German national income and budgetary allocations taken up by investment and defense expenditures. These expenditures are used to support the expansion of industrial capacity, of the armed forces, and of the production of military items. Included in these expenditures are the accumulation of stockpiles (particularly of petroleum products and foodstuffs) and the construction of airfields, railroads, transshipment points, warehouses, and possibly some underground facilities. All of these efforts are undertaken, at least in part, to improve the strategic position of the USSR. Some of these activities indicate preparation for a general war; others, preparation for local wars not involving the use of Soviet armed forces.

The Soviet policy of exploiting and at the same time vigorously pressing the long-term development of East Germany has created problems for the USSR. Serious raw materials deficiencies, which can be met only by imports from the USSR and the West, have developed in East Germany. In meeting the very high planned rates of investment, East German civilian consumption has been cut back, thus retarding the recovery of living standards. The cutback in civilian consumption has in turn been

accompanied by inflation, which has impaired the efficiency of the East German economy and created popular discontent. Attempts at forced collectivization would further reduce supplies of civilian goods and in addition would stimulate discontent in rural areas. Nevertheless, such commodities as iron ore, certain ferroalloys, raw materials for the chemical industry, and cotton, which the USSR supplies to East Germany, are not critically short in the Soviet Union, and East German imports from non-Bloc sources are largely paid for by exports to the West. Hence East Germany clearly makes a net contribution to the military potential of the Bloc, and particularly to that of the USSR, and will make larger contributions in the future.

8. Soviet Program for East Germany.

The Soviet long-term program for East Germany and the role that the latter is scheduled to play in the Soviet Bloc are reflected in the mutual trade agreements and in the Five Year Plan (1951-55). The general program and the method of accomplishing it is outlined in the preceding section.

The East German economy is being rapidly integrated with those of the other Soviet Bloc countries through a series of trade agreements with the USSR and the Satellites. Such integration is, of course, a major part of the Soviet program. The most striking feature of these agreements is the large percentage increase in total trade. No formal trade agreement, however, was signed with any non-Bloc country in 1950. Existing agreements with Western countries were allowed to lapse, and the small amount of trade carried on with the West was handled on an ad hoc basis.

A trade agreement with the USSR signed in April 1950 provided for an increase of "more than 35-percent in trade." An agreement with Poland called for a 60-percent increase in trade during 1950, involving exchange of East German manufactured goods for Polish raw materials. East Germany's 1950 treaty with Czechoslovakia provided for a trade increase of "more than 50 percent" over 1949 levels, with East Germany to receive foundry coke, rolling-mill products, food, and textiles in return for chemicals, precision instruments, fertilizer, etc. Both Poland and Czechoslovakia, according to these treaties, were to provide goods on credit -- a tacit admission of the strain placed on the East German economy by the proposed expansion of trade. Long-term treaties concluded in 1950 with Poland, Czechoslovakia, and Hungary, based on the Five Year Plans of those countries, are another indication of the increasing integration of the Bloc economy in accordance with the Soviet long-term program.

Treaties for 1950 with the smaller Satellites followed the usual pattern of providing for the exchange of German industrial products for foodstuffs and raw materials. The most striking feature of these agreements was the large percentage increase envisaged in East Germany's trade with these countries, which had heretofore been almost negligible. The original trade agreement with Hungary, which was valid from October 1949 through December 1950, provided for an exchange of goods valued at $22.3 million. A supplementary agreement concluded in March 1950 provided for an increase of 40 percent over the level originally planned, while a second supplement, signed on 31 July 1950, called for a 70-percent increase over the original Plan totals. The 1950 agreement with Bulgaria called for a "fivefold increase" over total trade in 1949, which amounted to only about $3 million. Trade agreements for 1951, which apparently follow the same patterns and trends evident in the 1950 agreements, had already been concluded with Bulgaria, Rumania, and Hungary by the end of 1950.

Further progress toward integration was achieved in a series of agreements calling for scientific, technological, and cultural cooperation among the Satellites.

There is evidence of Soviet control of East German trade agreements and contracts. Other major features of the Soviet program for East Germany can be read directly in the present Five Year Plan (1951-55), which is discussed immediately following.

9. Main Goals of the Present Five Year Plan (1951-55).

a. Economic Planning.

Economic planning in East Germany* is carried on much as it is in the USSR. Plans are centrally formulated and approved in their final form by officials of the Soviet Union. Supervision of plan fulfillment and increasingly centralized administrative controls are executed by Party (SED)** organizations and functionaries. Private enterprise is diminishing, nationalized and Soviet-expropriated plants together accounting for approximately two-thirds of the industrial output. Measures preliminary to the collectivization of agriculture have been taken. The current Five Year Plan (1951-55) aims at the complete

* East Germany, the Soviet-sponsored government of which is called the Deutsche Demokratische Republik -- the German Democratic Republic (GDR) --, includes the Soviet Zone of Germany and the Soviet Sector of Berlin

** Sozialistische Einheitspartei Deutschlands (Socialist Unity Party).

integration of the East German economy with that of the Soviet Bloc. Controls are sufficiently comprehensive to prevent major deviations from pursuit of the Plan goals. Among the key goals of the Plan are economic independence of West Germany and conversion of the industrial potential to direct and indirect armaments production. The goals, however, seem to be too high to be achieved in their entirety.

The pattern of emphasis on industrial development of the Satellites is apparent in Soviet plans for East Germany. The original Five Year Plan (1951-55) contemplated an average annual investment in industry of DM 3.6 billion, an increase of 38 percent over 1936 levels. The planned level of investment is even more significant in view of the fact that East Germany already is highly industrialized. Investment and production are largest in the engineering industry, particularly in heavy machinery.

Under this Five Year Plan, production in 1955 is to reach a value of DM 11.28 billion. The Plan provides for supplying equipment for the expansion of the mining, metallurgy, and electric power industries; for production of many lines of equipment formerly imported from the West; and for surpluses to export in exchange for raw material imports. Production of capital goods in 1955, according to the Plan, would be from 250 to 260 percent of the 1936 level, which is similar to the output achieved in 1944.

b. Agricultural Development.

Agricultural development has a much lower priority than does industry in the East German scheme of economic planning. Although agricultural production is scheduled to rise, the main economic effort is to increase industrial production.

c. Civilian Consumption.

Civilian consumption in East Germany is still below the 1936 level despite postwar increases in living standards. The allocation of textiles, food, and other consumer goods, however, demonstrates that civilian consumption is given a relatively low priority. Plans for the production of consumer goods do not envision basic increases in living levels before the end of 1952.

d. Present Plan Goals.

The original Five Year Plan goals were revised on 1 November 1951. The original Plan submitted at the SED convention of 20 July 1950 has been in effect for 10 months. The revisions apparently were timed in connection with the conclusion in September of a long-term trade pact with the USSR. Preliminary review of new Plan targets shows a large increase in production of iron ore and pig iron to 3.65 million and 2 million metric tons, respectively. Steel targets are increased only slightly over the original Plan and are to reach 3 million tons by 1953. The revised targets for output of heavy machines and heavy electroengineering equipment show major increases. For example, production of machine installations for the power industry are to increase 610 percent over 1950 instead of 284 percent as in the previous Plan. Targets for basic chemicals also have increased as follows: sulphuric acid, to 450,000 tons from 400,000 tons; calcium soda, to 640,000 tons from 380,000 tons. Synthetic gasoline has been raised to 927,000 tons from 780,000 tons, and diesel oil to 650,000 tons from 475,000 tons. The coal industry targets reveal the failure of hard-coal mining and therefore an increasing shift to brown coal. The targets for selected consumer goods remain generally the same as in previous Plan, but over-all consumer industry targets appear to be lowered. The heavy emphasis on basic and heavy industry at the expense of consumer industries reveals weaknesses in heavy industries which probably can be alleviated only by trade with the West.

The Plan for agriculture calls for an increase of 57 percent in value of production over present levels. Output of grains is to be 11 percent above the prewar level; sugar beets, 27 percent. Food availabilities are to increase only slightly above 1936 level. The Plan also envisions wage and salary increases and price reductions. By 1955, East Germany should, according to the latest announcement, be producing twice as much goods as in 1936. Moreover, an upward revision of capital investment to DM 28.6 billions for the 5-year period also is planned, stressing the engineering industries and heavy industrial equipment.

10. Allocation of East Germany's Economic Resources.

a. Uncompensated Deliveries to the USSR.

The Soviet Union receives directly from East Germany approximately $2 billion worth of uncompensated goods and services a year. Uncompensated deliveries include the shipments of industrial goods to the USSR as reparations, occupation costs and troop maintenance, and other services. SAG (Soviet-owned) plants account for 44 percent of reparations shipments; public-owned factories, 39 percent; and privately owned firms, the remaining 17 percent.

The chief items shipped under the reparations program include equipment for electrical installations and railroads; mining, metallurgical, and metalworking equipment; and ships and marine equipment. Industrial raw materials do not bulk large in East German deliveries to the Soviet Union, uranium being the one raw material of importance obtained by the USSR.

The Soviet Union claimed that East Germany by the middle of 1950 had paid only about $3.7 billion of the $10 billion reparations bill. Of the remainder, or approximately $6.3 billion, the USSR forgave 50 percent and ordered that the remaining 50 percent be paid, in terms of 1938 dollars, over a period of 15 years. In current dollar value this sum represents an annual burden of from $500 to $600 million. In 1950, East Germany's actual reparation deliveries amounted to over DM 1 billion in 1944 values, or about $600 million.

To this total must be added about $900 million annually accruing to the USSR from SAG operations and profits, an additional sum for freight charges, the supply of marks taken from the national and Laender budgets, and the Soviet military occupation costs and maintenance of 300,000 Soviet armed forces. (Occupation costs and troop maintenance probably represent from $120 million to $180 million.) The total of uncompensated deliveries is thus between $1.5 billion and $1.7 billion a year.

In 1950 the East German budget contained the following items which constitute direct appropriations to the benefit of the USSR as the occupying power:

S-E-C-R-E-T

East German Budget Allocations
to the USSR
1950

	Million DM
Reparations from Current Production	970
Price Subsidies on Item 1	300
Transport Costs	70
Miscellaneous Expenditures	10
Transfer to Account 153 of DNB	1,993
Transfer to Account 154 of Garkrebo	400
Total	3,743

Some of the corresponding figures are available for 1951 as follows:

East German Budget Allocations
to the USSR
1951

	Million DM
Reparations from Current Production	527
Price Subsidies	373
Transfer to Account 153 of DNB	1,950
Transfer to Account 154 of Garkrebo	600
Total	3,450

Taking into account Soviet takings which were not publicized and the illegitimate benefits which the Soviet Union is obtaining through preferential pricing in foreign trade, it has been estimated that Soviet takings total about DM 6 billion.* Estimates of reparations and uncompensated deliveries become complicated because of difficulties in establishing prices and exchange rates and because of hidden values.

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* [redacted] 10 Sep 1951, pp. 38, 39.

S-E-C-R-E-T

b. Production of Military Equipment for the Bloc.

It is estimated that less than one-third, and perhaps less than one-fourth, of prewar Germany's total munitions capacity was located in what is now East Germany. Of the 13 principal wartime manufacturers of heavy weapons, only 2 were located in East Germany, both in Magdeburg. Even the manufacture of small arms and of small-arms ammunition centered in the West, but Suhl in East Germany remains an important center of this production.

Liquidation of the East German munitions industry as provided for under the Yalta Agreement and the Potsdam Declaration was completed before the target date of June 1948. However, the Soviets violated these agreements by giving East German plants extensive orders for weapons components. The fulfillment of these orders has been assured by Soviet assistance in plant rehabilitation and in providing raw materials.

No accurate estimates of present production of military items in East Germany can be made on the basis of available information. It is believed, however, that little or no manufacture of assembled military weapons has yet taken place in East Germany but that components of Soviet weapons are being made in substantial quantity. These are sent to the USSR for assembly. This situation probably will continue through 1952. Among the components produced are parts for both small arms and heavier weapons, including tanks, railroad guns, submarines, and aircraft. No less than 30 firms are reported to be making major components of the Soviet T-34 tank. In addition, explosives, ammunition, machinery for munitions manufacture, and small ships are produced, and ammunition depots and dumps are being built up.

In addition to the manufacture of components for Soviet weapons, the East German industry regularly engages in repair work on weapons of the Soviet occupation forces.

The German Type-42 machine gun, about 1,000 of which are believed to have been made within the past 2 years, is the only complete weapon manufactured in East Germany. The Alert Police are equipped in part with the World War II 98-K rifle, and there are reports of new East German production of this rifle in 1950 for the police.

Information available at present on the East German arms industry can be summarized as follows:

(1) Ninety-three ammunition depots and dumps in East Germany have been identified, and there probably are more which have not been definitely located. They vary in size from small military unit dumpt to large supply and storage depots. Some are located underground, and many are former German military bases

which have been taken over by Soviet army units and are now being used for ordnance and ammunition supply depots.

(2) There are 32 firms in East Germany reportedly producing tank parts and subassemblies. Reports of complete tank assembly in the Magdeburg and Kirkmoesser areas have not been confirmed, although this is believed to be possible in view of the quantities of tank parts produced in East Germany.

(3) Numerous firms also are engaged in the production of heavy gun assemblies, artillery prime movers (tractors), signal apparatus, chemicals and explosives, military clothing and equipment, submarine parts, aircraft parts, and chemical warfare agents.

(4) The key plants for armament production in East Germany are the SAG (Soviet-owned) installations. However, many nationally owned (VEB) and privately owned plants also are producing armaments. Some of them produce independently, and others make deliveries to other armament plants.

The East German aircraft industry is presently small because of the large-scale dismantling of aircraft factories carried out after the war by the USSR. No tactical or transport aircraft, either jet or conventional, are being made. Production is limited to aircraft parts and low-horsepower engines. It is reported that in 1947 the Soviets stopped dismantling underground manufacturing installations, many of which were aircraft factories, and investigated their possible use in the event of war. No information has been received, however, with regard to the reactivation of these plants to produce aircraft parts. In any event, the deportation of key German scientists has made it very difficult to rebuild the industry.

In summary, it appears that the Soviet Union is vigorously exploiting the industrial capabilities of East Germany to improve the military position of the USSR.

c. Capital Investment.

The Five Year Plan (1951-55) contemplates an average annual investment in industry of DM 3.6 billion, an increase of 38 percent over 1936 levels, or DM 18 billion for the 5-year period. The latest announcement on the subject shows that contemplated total investment has been increased to DM 28.6 billion, or DM 5.7 billion per year.

Investment is largest in the engineering industry, particularly in heavy machinery. Reconstruction of 24 machinery manufacturing plants crucial to the success of the Plan is scheduled to take place by 1953.

The following table shows the most recent information on the investment in the engineering industries:

Distribution of Investment in the Engineering Industries

Industry	Percent Investment
Heavy Machinery a/	42
General Machinery	8
Electrotechnical Equipment	14
Precision and Optical Equipment	6
Rail and Motor Transport Equipment	5
Shipbuilding	25
Total	100

a. Includes the machine tool and bearing plants, which are to employ 4.5 percent of the workers and receive 17 percent of the investment.

Investment plans for 1950 and 1951 before the recent announcement increasing the total planned investment can be summarized as follows*:

East German Investment Plans
1950 and 1951

Million DM

	1950	1951
Budget	1,567.3	2,221.3
Amortization	266.6	521.5
Loans, Credits, and Self-financing	315.5	712.3
Berlin	200.6	358.9
Subtotal	2,350.0	3,814.0
Major Repairs	177.7	392.0
Supplementary Investments in Berlin	274.4	316.1
Supplementary Investments for Zone	0	135.0
Total	2,802.1	4,657.1

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* [redacted] 10 Sep 1951, p. 46.

Investment in SAG's has been estimated at about DM 420 million in 1951 and in 1950 about DM 350 million.

d. Gross National Product.

It is very difficult to give even limited meaning to announced percentage figures on economic activity, that is, to translate them into comparable production values. Table 1 of the Appendix shows the gross industrial production. Several official reports* on gross industrial production show planned production for 1950 between DM 21 billion and DM 23 billion. Gross industrial production in 1949 was reported as DM 17.7 billion.**

Table 2 of the Appendix shows the gross national product by sources in millions of Reichmarks 1936 purchasing power. The data must be used cautiously because of the many unknown factors and assumptions. They may, however, be useful in connection with some specific problems.

e. Comparison of Capital Investment with Uncompensated Deliveries to the USSR.

Attempts to answer the question of allocation of resources and capabilities categorically might lead to complications not only because of uncertainties in general but also because of the difficulty in comparing values which may be expressed in different units.

The following rough comparison is therefore to be considered with caution, although it gives some idea of relative allocations.

Total uncompensated deliveries to the USSR from 1945 to 1950 have been estimated at between 11 and 12 billion current US dollars, or an average of over $2 billion a year. These operations far exceed East Germany's total commercial trade. On the basis of exchange rates to August 1950 (RM/DM = $0.40; since August 1950, $0.30), this would amount to DM 5 billion.

25X1X According to [redacted] the total Soviet takings for 1950, including reparations, price subsidies, transport costs, and transfers to special accounts, would amount to DM 3.74 billion. Corresponding figures for 1951 are given at DM 3.4 billion. The same source estimates that unpublicized and illegitimate benefits to the Soviets through preferential prices might raise this amount to about DM 6 billion. From these data it would appear that Soviet uncompensated takings would be roughly equivalent to the average yearly capital investment, as indicated in the Five Year Plan announcements of DM 3.6 billion and the latest one of DM 5.7 billion per year. Each of these items appears to

25X1A * [redacted] 18 Oct 1949; [redacted], 31 Jul 1950; Albrecht speech on Five Year Plan, Jul 1950.

** [redacted] 17 Mar 1950. 25X1A

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be between one-quarter and one-third of the gross national product. Other estimates also indicate that Soviet uncompensated deliveries from East Germany up to 1950 have been from about 25 to 30 percent of the East German national income.

The allocation for military equipment cannot be estimated even roughly, based on the available information.

11. Extent of Nationalisation of Industry and Services.

Since 1945, governmental control has constantly narrowed the scope of independent enterprise in the fields of commerce and distribution. Private business per se is not prohibited, and independent artisans and repair shops of all kinds still exist, but only at the sufferance of the government and under strict regulation. The activities of this private sector of the economy are kept in check through such devices as discriminatory taxation, retroactive taxes, and the selective allocation of new materials. In addition, "popular" pressure is sometimes exerted through the trade unions, which continue to perform their original function of protecting the workers' interests from the private employers.

Although private enterprise is still predominant in parts of the distribution apparatus, it is highly regulated and retains only auxiliary functions, serving in many instances as subcontractor to state-owned firms. It accounts at present for approximately 22 percent of production and is obviously a diminishing sector of the East German economy.

While it is difficult to obtain up-to-date statistics on the progress of nationalization in industry and services, the pattern of this program is quite evident. In February 1950 [redacted] 25X1X nationalized plants, while representing only about 8 percent of all East German plants, accounted for about 50 percent of industrial output. A US Army estimate of East German production in the first half of 1950 indicated that nationalized industries accounted for 65 percent of the total. Production of the 120 Soviet-owned (SAG) plants, which formerly belonged to Nazis or "war criminals" but were expropriated and placed under Soviet ownership and administration, was estimated at from 25 to 27 percent of total output. The estimated balance, or from 23 to 25 percent, was produced by private industry. Contributing to the difficulty of accurate reporting on the SAG plants is the Soviet practice of amalgamating these firms into large combines, now numbering 20, and returning the smaller, uneconomical businesses to the Germans.

The further socialization of industry through a gradual attrition of private factories is an avowed goal of the Five Year Plan (1951-55). By the end of 1951, state-owned factories, including SAG plants ordinarily considered to be outside the East German economy for planning purposes, are expected to account for 76.7 percent of total production. Retail trade still remains largely in private hands.

12. Extent of Collectivization of Agriculture.

The government has not yet implemented its intention of collectivizing agriculture, although the measures employed to control agriculture are preliminary steps toward that end. Reports circulated early in 1950 indicated that the first model collective farm would go into operation during that year, but this action has not yet been confirmed.

It is believed that the government will continue to restrain the use of overt collectivization measures because of the adverse effect which they would have on both East and West Germans. If the rate of collectivization is stepped up, it is believed that government procurement of agricultural products would be adversely affected as a result of widespread peasant resistance. It is believed that no other forces of opposition would play a significant part in resistance to collectivization because it appears to be a question of effective government control.

13. Soviet-owned Companies.

Dismantling of East German industries began in the middle of 1945 and continued sporadically through 1946. Estimates on the extent of dismantling indicate a loss of industrial capacity equal to about 30 percent of the 1943 level. Dismantling and war damage combined reduced the East German industrial capacity to less than 50 percent of the 1943 wartime peak capacity.

By the middle of 1946 the USSR realized that dismantling of East German factories was detrimental to the full utilization of plant capacity. It was therefore announced in 1946 that plants earmarked for reparations would be transferred to Soviet ownership but would be left in East Germany to be operated with German labor and raw materials but under Soviet ownership. Seventy-four of these plants were returned to the East German government in March 1947.

Subsequent information indicates that the Soviet-owned companies control about one-third of East Germany's total brown coal production, two-thirds of the potash production, one-half of the metallurgical capacity, one-half of the cement capacity, and from 90 to 100 percent of other building material capacity. Reports estimate that the Soviet-owned (SAG) plants by the end of 1949 had an absolute monopoly in the basic chemical industries and also exercised control over 3,000 state-owned enterprises and approximately 24,000 privately owned enterprises in other industries through their control of coal and power production. The Soviets also own 30 percent of the present production capacity of the engineering industries, which account for 25 percent of the total value of East German industrial production. The value of the 1950 production of the engineering industry was about DM 5.2 billion. The total number of German employees working for SAG plants is estimated at about 300,000, not including

70,000 employed in uranium mining. The East German government has no influence on the SAG plants but is obliged to deliver raw materials and machines to them on a priority basis and at prices fixed below production costs. Prices for finished products which are to be delivered as reparations are based on the value of the 1944 Reichsmark. It is estimated that the value of SAG production in 1950 was about DM 3.6 billion in terms of 1944 prices. SAG production is delivered to the USSR or exported on Soviet account.

In addition to the SAG enterprises, the USSR has assumed a Trustee Administration Control over 309 industries with 34,000 employees in Berlin, which in 1947 produced DM 439 million worth of manufactured goods, of which 38.5 percent went to the USSR. Table 3 of the Appendix shows the distribution of various items in the planned SAG production for reparations accounts.

14. Soviet Economic Benefits.

The benefits to the Soviets from East Germany are apparent from the Soviet long-term program and the trade agreements, particularly in view of the progress in integrating East Germany into the Bloc. East Germany makes substantial contributions to the economies of the USSR and the Satellites not only through its commercial exports of heavy industrial machinery, precision instruments, uranium ores, and chemicals but also through uncompensated deliveries to the USSR. East Germany's commercial exports to the USSR were valued at an estimated $369 million in 1950 and were composed of the same types of commodities as those delivered as reparations. It is considered probable that exports will remain about the same through 1952. The value of the uncompensated deliveries exceeds the value of exports to the USSR. This subject has already been discussed under the heading "Allocation of East Germany's Economic Resources." East Germany is one of the most industrialized areas in the Soviet Bloc. It is heavily dependent, however, upon imports of raw materials, and this weakness has been aggravated by the excessive demands of the Bloc for industrial products.

A slower rate of increase in East German exports to the Soviet Bloc and a sharper rise in imports from the Bloc in 1950 suggest that the rate of Soviet exploitation of East Germany has passed its peak. The net Soviet gain of imports over exports to East Germany dropped from $177 million in 1949 to $57 million in 1950. The other Satellites also were forced to contribute more resources to the East German economy in 1950 than they did in 1949. Credits were extended by Czechoslovakia and Poland, and the East German deficit in Satellite trade rose from $20 million in 1949 to $72 million in 1950.

Fulfillment of East German commitments to the Bloc is dependent to a large extent on trade with West Germany. Trade with the rest of the world, although accounting for only 9 percent of total trade in 1950, is nevertheless

strategically important and of ultimate benefit to the Soviets. A substantial proportion of imports from these countries represents commodities which East Germany cannot secure from the Bloc.

The continued development of East Germany as a major source of manufactured goods for the Soviet Bloc is to be expected, unless vital imports are cut off from the West. It is probable, however, that further expansion will proceed at a slower pace than in 1950 and that increased East German exports will require a still greater increase in total imports. Moreover, as the effects of Western export controls become more restrictive, a greater proportion of total imports must be supplied by the Bloc.

Uncompensated East German deliveries will continue to contribute significantly to the Soviet economic and military potential through 1952. The total uncompensated deliveries to the USSR in the form of reparations, requisitions, financing of Soviet-owned companies, and occupation costs from 1945 to 1950 inclusive are estimated to be between 11 billion and 12 billion current US dollars, or over $2 billion a year. These operations far exceed East Germany's total commercial trade.

Dismantling affected practically all industries and, together with the effects of war damage, reduced the industrial capacity to about 50 percent of the peak 1943 level. Available estimates seem to indicate that the Soviet Union has been taking between 50 and 65 percent of the total production of finished industrial and consumer goods.

Despite various industrial and financial difficulties, reparation deliveries have been substantially met by the East German economy, partly because Western export controls have not halted non-Bloc trade. Planned increases in industrial capacity indicate that East Germany is likely to continue uncompensated deliveries to the Soviet Union or on its account at the rate of from $1.7 billion to $2 billion a year through 1952.

15. Foreign Trade Pattern.

East German foreign trade is characterized by imports of raw materials and exports of finished goods, although some commodities, such as uranium ores and concentrates, provide exceptions to this pattern. The necessity of meeting commitments to the Soviet Bloc largely sets the pattern of East German foreign trade. Trade with the Bloc comprises about three-fourths of total trade. In 1950 the USSR took about 44 percent of East German exports and supplied about 33 percent of imports. The composition of exports to the USSR is not expected to change extensively by 1952 but probably will be altered when heavy industrial plants reach the production levels scheduled for 1954-55.

Trade with the Satellites is increasing, both absolutely and relatively, as East Germany provides much of the industrial equipment and materials required in Satellite development programs.

Detailed information on intra-Bloc trade is lacking. However, every effort is being made to develop the East German economy with minimum dependence on non-Bloc trade. The decline in the export surplus in trade with the USSR and a rise in the import surplus in trade with the Satellites between 1949 and 1950 suggest that direct Bloc exploitation of the East German economy passed its peak in 1948.

Official trade with West Germany was 18 percent of total trade in 1950 and was valued at $75 million. Clandestine interzonal trade, however, is estimated to be as high as from $250 million to $300 million a year, which indicates the importance of such trade in the East German economy. This trade enables East Germany to obtain industrial requirements essential to the fulfillment of production quotas. Trade with the rest of the world accounts for only 9 percent of the total. Electrical, railroad, mining, metallurgical, metalworking, marine equipment, and ships are the chief items delivered under the reparations program. These deliveries have aggravated East Germany's economic difficulties by contributing to shortages of materials and of foreign exchange needed to obtain Western industrial equipment, but planned increases in industrial capacity indicate that East Germany probably will continue to make reparations shipments at the rate of from $1.7 billion to $2 billion a year through 1952.

Trade statistics from Western countries show exports to East Germany valued at $108 million in 1950. Nearly $33 million worth, or about 30 percent of the total of detailed imports, represented metals and metal products. West Germany delivered $27 million worth of this total. The second largest import category was chemicals and pharmaceuticals, valued at $17 million, of which $14 million worth came from West Germany. Food imports ranked third, accounting for $15 million, and nonelectrical machinery imports, virtually all of which came from West Germany, came fourth and were valued at $11 million.

The following table shows trade in millions of dollars of value by principal countries and areas, ratio of trade with each country or area to total trade, and percentage of change with each country or area:

East German Imports, Exports, and Total Trade
1948-50

Source or Destination	1948 Value (Millions of Dollars)	1949 Value (Millions of Dollars)	1949 Percent of Total Trade	1949 Percentage Change from 1948	1950 a/ Value (Millions of Dollars)	1950 a/ Percent of Total Trade	1950 a/ Percentage Change from 1949
Imports							
USSR	51	91	31.5	+ 78.4	156	33.3	+ 72.5
Satellites	40	79	27.3	+ 97.5	200	42.6	+158.2
West Germany	72	74	25.6	+ 2.8	75	16.0	+ 1.4
Other	28	45	15.6	+ 60.7	38	8.1	- 15.6
Subtotal	191	289	100.0	+ 51.3	469	100.0	+ 62.3
Exports							
USSR	68	208	54.5	+117.6	213	43.9	+ 2.4
Satellites	34	59	15.4	+ 44.1	128	26.3	+117.0
West Germany	67	68	17.8	+ 1.5	96	19.8	+ 41.2
Other	23	47	12.3	+104.3	49	10.0	+ 2.1
Subtotal	192	382	100.0	+ 98.9	486	100.0	+ 27.0
Total Trade							
USSR	119	299	44.6	+151.3	369	38.7	+ 23.4
Satellites	74	138	20.5	+ 86.5	328	34.4	+137.7
West Germany	139	142	21.2	+ 2.2	171	17.9	+ 20.4
Other	51	92	13.7	+ 80.4	87	9.0	- 6.5
Total	383	671	100.0	+ 75.2	955	100.0	+ 42.2

a. Estimated.

16. Trends in Foreign Trade Pattern, Including Indications of Mobilization for War.

The comparative emphasis on various commodities in East Germany's foreign trade in 1951-52 will follow the pattern already established. Planned import for the various branches of East German industry during the fiscal year 1951-52 will total $887 million, with the principal items as follows: food, $304 million; metals, $222 million; textiles, $101 million; mining, $93 million; and chemicals, $75 million. Planned exports are set at $729 million, of which machinery and electrical engineering will account for $318 million; chemicals, $120 million; precision instruments, $88 million; and mining, $77 million. Therefore, the indicated goal of total trade for the 1951 fiscal year is approximately $1.6 billion, an increase of more than 60 percent over the 1950 total trade. It seems unlikely, however, that overt trade, at least, will amount to much more than $1.2 billion in 1951 or about $1.5 billion in 1952.

The forced redirection of East German trade to the Soviet Bloc and the large expansions planned for 1951-52 are expected to produce strains in the economies of both East Germany and its Bloc trading partners. For example, the USSR probably will be unable to provide East Germany with aluminum in 1951-52, as it has in the past, because of heavy demands from China. It is likewise unlikely that the USSR will be able to deliver bauxite before 1952, and the 60,000 metric tons promised by Hungary will not meet East German needs. The USSR also will have difficulty in supplying steel needed by East Germany.

The increasing integration of East Germany's foreign trade into the Bloc economy will continue. East Germany's role as purchaser for the Bloc in the West, particularly in West Germany, will become increasingly important. An indication of this trend is the plan for East Germany to assume responsibility for all machinery purchases in the West for the entire Satellite area. One of the principal reasons for this maneuver is to prevent the West from knowing the ultimate destination of the imports.

Despite the Bloc's goal of maximum independence from the West, it seems unlikely that trade with non-Bloc countries can be cut appreciably below present levels, especially in view of East German obligations to the Bloc and the program of East German purchasing in the West for other Bloc countries. On the contrary, it seems probable that the achievement of planned expansion of East German foreign trade will become increasingly dependent upon success in securing strategic materials from the West. Trade with West Germany will remain vital to East Germany's industrial plans, and there is evidence that the volume and value of both overt and covert imports from the West will increase in 1952 unless effective measures are taken to tighten Western export controls, especially in West Germany.

17. Limitations on East Germany's Economic Capabilities.

The principal items which East Germany lacks in order to expand its industrial production are bituminous and hard coals; coke; high-grade iron ore; iron and steel; manganese; nonferrous metals including copper, lead, tin and zinc, sulphur and pyrites; and some chemicals. Among the agricultural products, wool and cotton notably are in short supply. For most of these, East Germany is heavily dependent on the rest of the Bloc as well as, to some extent, West Germany. Manpower also is a difficult problem. In this latter respect, East Germany is scraping the bottom of the barrel.

Thirty-three percent of East German imports by value in 1950 were from the USSR, 43 percent from other Satellites, 16 percent from West Germany, and 8 percent from other Western European countries and the rest of the world. Important items are imported from Belgium, Sweden, Switzerland, and the Netherlands, and although it is estimated that they are not absolutely essential to the East German economy, inability to import such commodities would have a serious effect.

East Germany's legal imports from West Germany were valued at about $75 million in both 1949 and 1950, but, as a proportion of total imports, they declined from 26 percent in 1949 to 16 percent in 1950. Clandestine imports from the same area amount to possibly three times the legal imports. These clandestine imports are believed to be composed largely of iron and steel products, bearings and machine tools. Attainment of planned production goals will require imports from West Germany of commodities which East Germany either cannot yet manufacture or cannot obtain in sufficient quantity from within the Bloc. Even the maintenance of present production levels in East Germany depends to a large extent upon obtaining metalworking machinery and transportation equipment and replacement parts from the West.

Heavy industry in East Germany is particularly dependent upon West Germany for imports of component parts, particular types of specialized machine tools, basic steel products, and high-grade alloys. The chemical industries still are dependent to a large extent upon Western sources, principally Sweden and the Netherlands, for caustic soda, sulphur, and pyrites, all of which are in short supply in the Soviet Bloc. An inadequate supply of caustic soda would affect the production of rayon and cellulose, soap, dyestuffs and intermediates, and heavy chemicals. East Germany possibly would be self-sufficient in sulphur and pyrites if reparations shipments of these commodities to the Soviet Union were discontinued. Shortages caused by such reparations shipments, however, have forced many plants to curtail operations, and the Soviet Bloc has not been able to supply the sulphur and pyrites necessary to make up the difference.

The expansion of production of electric power and coal likewise is dependent on the West. The present output of electric power is inadequate despite the existence of a highly integrated and efficient network. Round-the-clock and multishift operations have been instituted for maximum utilization of present capacity. Without imports of parts and new equipment for electric power installations from Western countries, however, it will be difficult for East Germany to increase either total operating capacity or actual power production. Directly related to the electric power problem is that of coal, which is virtually the sole energy source used in power generation. East Germany faces a bituminous coal shortage, which it is attempting to offset by extensive use of brown coal. No sector of the economy presently has more than a 2-weeks' supply of coal on hand, and in most instances reserves are sufficient for less than 1 week. The age and poor condition of the machinery and equipment now used preclude an improvement in this condition. Considerable effort is being expended on the development of a mining equipment industry in order to remedy this weakness.

Manpower in East Germany presents a unique problem. Population transfers and materials shortages have created unemployment. Given sufficient materials and facilities, however, there probably will be a manpower shortage as the Five Year Plan gains momentum because of the excess of deaths and defections over births. In addition, there is a specific shortage of technical and skilled personnel. Although efforts have been made to overcome this lack through training programs, defections to West Germany, if they continue at the current rate, are likely to offset any gains. Thus, there are two weaknesses in the manpower situation: (a) the discontent and unrest which arise from unemployment, and (b) continued and possibly increased defections to the West, particularly of technical and skilled personnel. Details concerning the qaulitative composition of the defectors are not known, and therefore the effects on East German industry of such defections cannot be assessed.

Transportation is not critically vulnerable to Western measures of economic warfare. Most shortages of transport equipment and supplies which now exist result from the heavy reparations burden on the transportation equipment industry.

Agriculture does not represent a vulnerability so far as imports from the West are concerned, because the Soviet Bloc is able to make up any East German agricultural deficit.

The probability that the effects of Western export restrictions could be offset through an increase of intra-Bloc trade is not great. In 1950 a major effort was made to reduce all trade with non-Bloc sources to an absolute minimum. There are, of course, some steps which could be taken, such as the alleviation of the coal shortage by stopping Polish exports of coal to Western Europe. Such adjustments, however, probably could not solve all the problems created by large-scale Western economic warfare.

The most important adjustment possible would be a reduction by the Soviet Union of its uncompensated takings from East Germany. Such action would release to domestic industry the machinery and materials necessary to achieve the Five Year Plan goals. There also is room for internal adjustment in the East German economy. Difficulties of such adjustment, however, are evidenced by the continuing unemployment problem, which further shortages of equipment and supplies would accentuate.

Operations in the most critical sectors of the economy, however, probably could be maintained despite Western economic warfare measures. The consumer goods industries have some capacity which could be diverted to heavy industry. Production in less important industries could be cut back to make more supplies available. Except for those items imported from West Germany, the use of substitutes cannot be developed much further.

18. Indications of Preparations for War.

The basic emphasis on heavy industry in the current Five Year Plan involves an expansion of those industries capable of contributing directly or indirectly to arms production. The types and quantities of producers' goods called for by the Plan are similar to those of 1944, the year of peak production during the war.

Foods, including grain and meat, are being stockpiled. About 45,000 metric tons of canned meat, equivalent to 63,000 metric tons of carcass meat, and about 1 million metric tons of grain have been stockpiled, and further expansion is scheduled. Stockpiles of petroleum products almost completely fill the available storage space of about 1 million metric tons. A stockpile of rubber also is being accumulated. The USSR is preserving the underground factories built by the Germans. The production of war materiel has increased, although to what extent is unknown. No available evidence confirms the production of complete weapons, but component parts for small arms and heavy weapons, including tanks, railroad guns, submarines, and aircraft, as well as explosives and ammunition, are being made in substantial quantities. Port and shipping facilities and the airfield network, which is under complete Soviet military control, are being expanded.

There are few indications of immediate preparations for war and no evidence of a mobilization of manpower or transport facilities on a wartime basis or of a dispersal of industries. There are, however, indications which point to long-term preparation for war.

APPENDIX

TABLES

Table 1

Planned Gross Industrial Production*
1950

	1950 Plan (Millions of DM)	Percent of Plan Fulfillment
Mining	1,290.0	102
Metallurgy	550.0	116
Machine Construction	3,660.0	106
Electroengineering	1,147.7	106
Precision, Mechanics, and Optics	389.6	98
Chemical Industry	--	108
Building Materials	888.5	97
Wood Processing	1,042.0	108
Textile Industry	2,990.2	119
Leather and Clothing	1,326.0	118
Cellulose and Paper	538.4	112
Lumber	222.1	99.9
Graphic Industry	385.4	98
Food Industry	3,800.0	110
Power	800.0	107

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* Partial table from [redacted]
10 Sep 1951, p. 14.

Table 2

National Product in East Germany
1936 and 1947-50*

	Billions of Reichsmark (1936 Purchasing Power)				
Gross National Product by Sources	1936	1947	1948	1949	1950
Industry and Handicraft	7.4	3.4	4.3	5.1	6.0
Depreciation Applicable to Industry and Handicraft	.9	.6	.8	.9	.9
Total	8.3	4.0	5.1	6.0	6.9
Agriculture	2.5	1.5	1.6	1.8	1.9
Services	4.8	3.8	4.3	4.7	4.7
Depreciation Applicable to Agriculture and Services	.6	.3	.5	.5	.5
Indirect Taxes and Fees	2.8	3.7	4.2	4.7	4.7
Total	19.0	13.3	15.7	17.7	18.7
Add: Net Foreign Contribution	.1	--	--	--	--
Deduct: Reparations and Goods Deliveries	--	2.0	1.6	1.6	1.1
Occupation Costs and Other Receipts of Occupation Powers	--	2.5	2.0	1.7	1.6
Net Available Product	18.9	8.8	12.1	14.4	16.0
Deduct: Gross Investment	3.3	1.3	1.9	2.5	3.0
Government Services	3.7	3.0	3.5	4.0	4.0
Available for Private Consumption	11.9	4.5	6.7	7.9	9.0
Population (millions)	16.8	18.5	18.6	18.8	19.0
Private Consumption per Capita	708	243	360	420	474

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* Taken from [redacted] 10 Sep 1951, p. 54: Economic Situation of East Germany, 1950, OIR Report No. 5202, dated 7 Aug 1950.

Table 3

SAG Production on Reparations Account
1 October 1947 to 30 June 1948

Commodity	Unit	Deliveries
Heavy Industry		
Steel	Metric Tons	600,000 a/
Nonferrous Metals	Metric Tons	400,000
Half-finished Products of Copper, Zinc, and Alloys	Metric Tons	220,000
Lead and Parts for Storage Batteries	Metric Tons	110,000
Light Industry		
Heavy Workshop Machines	Metric Tons	240,000
Ship Construction	Metric Tons	180,000
Shipyards	Metric Tons	160,000
Mines	Metric Tons	60,000
Rubber Manufactures	Metric Tons	120,000
Light Machines and Tools	Metric Tons	260,000
Agricultural Machines	Metric Tons	80,000
Automobile Industry		
Passenger Cars	Units	12,000
Trucks	Units	8,000
Trailers	Units	10,000
Tractors	Units	16,000
Chemicals		
Basic Chemicals	Million DM	110
Ammonia	Million DM	17
Inorganic Chemicals	Million DM	80
Explosives	Million DM	540
Dyes	Million DM	80
Tar Products	Million DM	40
Precision Instruments	Million DM	75
Electric Equipment	Million DM	60
Construction Materials		
Cement	Metric Tons	20,000
Timber	Cubic Meters	120,000

a. Unfulfilled deliveries of steel amounted to 140,000 metric tons.